

Message Text

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FM AMCONSUL LUANDA

TO SECSTATE WASHDC 2917

INFO AMEMBASSY LISBON

AMCONSUL LOURENCO MARQUES

AMEMBASSY LUSAKA

AMEMBASSY KINSHASA

AMEMBASSY DAR ES SALAAM

AMEMBASSY PRETORIA

AMCONSUL CAPETOWN

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: ECON EFIN ELAB AO

SUBJECT: ECONOMIC EFFECTS OF VIOLENCE IN ANGOLA

CAPETOWN FOR EMBASSY

1. SUMMARY. THE VISIBLE ECONOMIC EFFECTS OF URBAN VIOLENCE IN LUANDA ARE FEW AND STILL MINOR IN DEGREE EXCEPT FOR THE INCREASING LOCAL DISCOUNT OF THE ANGOLAN ESCUDO AND THE SEVERE LIQUIDITY CRUNCH BEING EXPERIENCED HERE. ALMOST ALL BUSINESSES EXCEPT THOSE RETAIL ESTABLISHMENTS BURNED IN THE BLACK GHETTOS ARE AGAIN FUNCTIONING NORMALLY. MOST SHORTAGES OF CONSUMER GOODS ARE DUE TO WIDESPREAD HOARDING RATHER THAN PRODUCTION OR DISTRIBUTION

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PROBLEMS. THE DEPARTURE OF SEVERAL THOUSAND LUANDANS, BLACKS AND

WHITES, HAD ONLY A SLIGHT EFFECT ON PRODUCTION SINCE THE GREAT MAJORITY OF THOSE THAT LEFT WERE DEPENDENTS. THE LOSS OF MIDDLE MANAGEMENT EXPERTISE BY EMMIGRATION WILL BE FELT BUT NOT FOR SOME TIME. END SUMMARY.

2. LABOR. LOSS OF TRAINED BLACK LABOR THAT HAS FLED THE CITY AND THE UNWILLINGENSS OF THOSE THAT REMAIN TO WORK OVERTIME OR AFTER DARK ARE MAJOR PROBLEMS. IN ONLY A HANDFUL OF CASES, HOWEVER, HAS THE LOSS OF WORKERS CAUSED ACTUAL SHUTDOWNS. WAGE INCREASES SINCE THE APRIL COUP (50-100 PERCENT IN MANY CASES) HAVE CONTRIB-UTED TO DECREASED PRODUCTION BY DESTROYING THE DESIRE OR NEED TO WORK OVERTIME. INCREASED DISPOSABLE PERSONAL INCOME IN AFRICAN HANDS HAS HELPED COUNTERACT REDUCED SPENDING BY THE SMALLER NUMBER OF WHITES STILL HERE. RELATIVE CALM, IF IT CONTINUES, SHOULD LURE BACK MANY OF THE BLACK DEPENDENTS WHO FLED ALTHOUGH MANY OF THE WHITES WHO LEFT - SMALL SHOPKEEPERS, ARTISANS, MIDDLE MANAGE-MENT-WILL PROBABLY NOT RETURN. THESE WERE ALMOST ALL FOREIGN BORN; VERY FEW ANGOLANS HAVE FLED. IT WILL BE SOME TIME BEFORE THE DROP IN MANAGERIAL EFFICIENCY BECOMES NOTICEABLE BECAUSE DAY-TO-DAY OPERATIONS ARE NOT IMMEDIATELY AFFECTED BY THE LOSS OF MANY STAFF POSITIONS. AUTHORITIES HERE CONFIDENTLY EXPECT MOST WHITES TO RETURN FROM PORTUGAL AFTER THEY DISCOVER THE REALITIES OF THE DEPRESSED ECONOMY THERE AND LIMITED EMPLOYMENT OPPORTUNITIES. NOW THAT LUANDA HAS BEEN CALM FOR SEVERAL DAYS A TREND IS ALREADY VISIBLE; PLANES ARE LEAVING HERE AT 80 PERCENT CAPACITY AND COMING BACK 60 PERCENT FULL, A DRAMATIC REVERSAL FROM A FEW WEEKS AGO, WHEN THE NORTHBOUND JETS WERE JAMMED AND ALMOST EMPTY COMING BACK.

3. INVESTMENTS: NO ONE IN ANGOLA HAS MADE WHOLLY NEW INVESTMENT COMMITMENTS SINCE THE APRIL 25 COUP IN PORTUGAL BROUGHT INTO QUESTION THE FUTURE OF THE PROVINCE AND ITS WHITE MINORITY. ON GOING PROJECTS CONTINUE, BUT ONCE A LICENSE IS OBTAINED ACTUAL CONSTRUCTION IS NOT BEGUN UNLESS THE INVESTMENT REQUIRED IS SMALL IN COMPARISON TO THE COMPANY'S TOTAL EXPOSURE AND PROMISES EXTREMELY QUICK PAY OUT.

4. LIQUIDITY. THE BANKING SYSTEM IS CURRENTLY IN A LIQUIDITY CRUNCH THAT HAS EVERY BANK IN VIOLATION OF ITS LEGAL RESERVE REQUIREMENT AND AT LEAST ONE WITH NO FURTHER RECOURSE TO LIMITED OFFICIAL USE

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REDISCOUNT FACILITIES. COMERCIAL CREDIT DEFAULTS ARE RUNNING APPROXIMATELY 40 PERCENT.

5. EXPORTS. OF ANGOLA'S THREE LEADING EXPORTS - PETROLEUM, COFFEE AND DIAMONDS - ONLY COFFEE EXPORTS HAVE BEEN AFFECTED AND THEN ONLY BECAUSE OF PORT CONGESTION HERE. CRUDE OIL PRODUCTION IS RISING, ALTHOUGH GULF IS WORRIED ABOUT FUTURE PRODUCTION IF THEY KEEP LOSING EXPLORATION STAFF. THE DIAMOND PRODUCER - DIAMANG -

REMAINS AS UNAFFECTED BY URBAN VIOLENCE AS IT HAS BEEN BY RURAL INSURGENCY. ANOTHER MAJOR EXPORT, FISHMEAL, IS SHIPPED FROM MOCAMEDES, ANGOLA'S ONLY UNCONGESTED PORT, AND REMAINS UNAFFECTED.

6. FOREIGN EXCHANGE. THE FREE MARKET PREMIUM ON HARD CURRENCY IN EXCHANGE FOR ANGOLAN ESCUDOS HAS JUMPED TO 60 PERCENT FROM AN AVERAGE PRE-COUP LEVEL OF 20 PERCENT AND THE RATE OF INCREASE IS ACCELERATING. (THE "PREMIUM" HERE IS THE DIFFERENCE BETWEEN THE FREE RATE AND THE OFFICIAL RATE.) PREFERRED HEDGE CURRENCIES HERE NO LONGER INCLUDE THE METROPOLITAN ESCUDO, A REFLECTION OF DECREASING CONFIDENCE IN PORTUGAL'S FUTURE, ALTHOUGH THE ESCUDO REMAINS IN DEMAND FROM MIDDLE AND WORKING CLASS WHITE RETURNEES AND SELLS AT AN 80 PERCENT PREMIUM.

7. THE IMMEDIATE ECONOMIC EFFECTS HERE OF THE VIOLENCE HAVE NOT BEEN AS GREAT AS EXPECTED FOR TWO MAIN REASONS. FIRST, THE COUP IN PORTUGAL, THE PROBABILITY OF VIOLENCE AND WHITE EXPECTATIONS OF A BLACK TAKEOVER HAD ALREADY BEEN DISCOUNTED AND INCLUDED IN THE PLANNING OF LARGE INVESTORS. SECONDLY, GOVERNMENT EXCHANGE AND BANKING RESTRICTIONS AND THE DEPRESSED REAL ESTATE MARKET MAKE IT IMPOSSIBLE FOR WHITES TO LEAVE WITH MORE THAN A FRACTION OF THEIR HOLDINGS; FEW ARE SUFFICIENTLY SCARED TO SELL OUT AT A LOSS AND THEN SUFFER FURTHER SHRINKAGE USING FREE MARKET CONVERSATION. ADDED TO THESE FACTORS ARE TWO RELATIVELY NEW ONES; THE HOPE THAT DECOLONIALIZATION WILL BE A LONG DRAWN-OUT PROCESS PERMITTING A GRADUAL, ORDERLY WITHDRAWAL AND THAT A DEGREE OF WHITE CONTROL CAN BE MAINTAINED AFTER INDEPENDENCE.

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